



The New Crop Insurance Reforms

Where We've Been;

Where We're Going.

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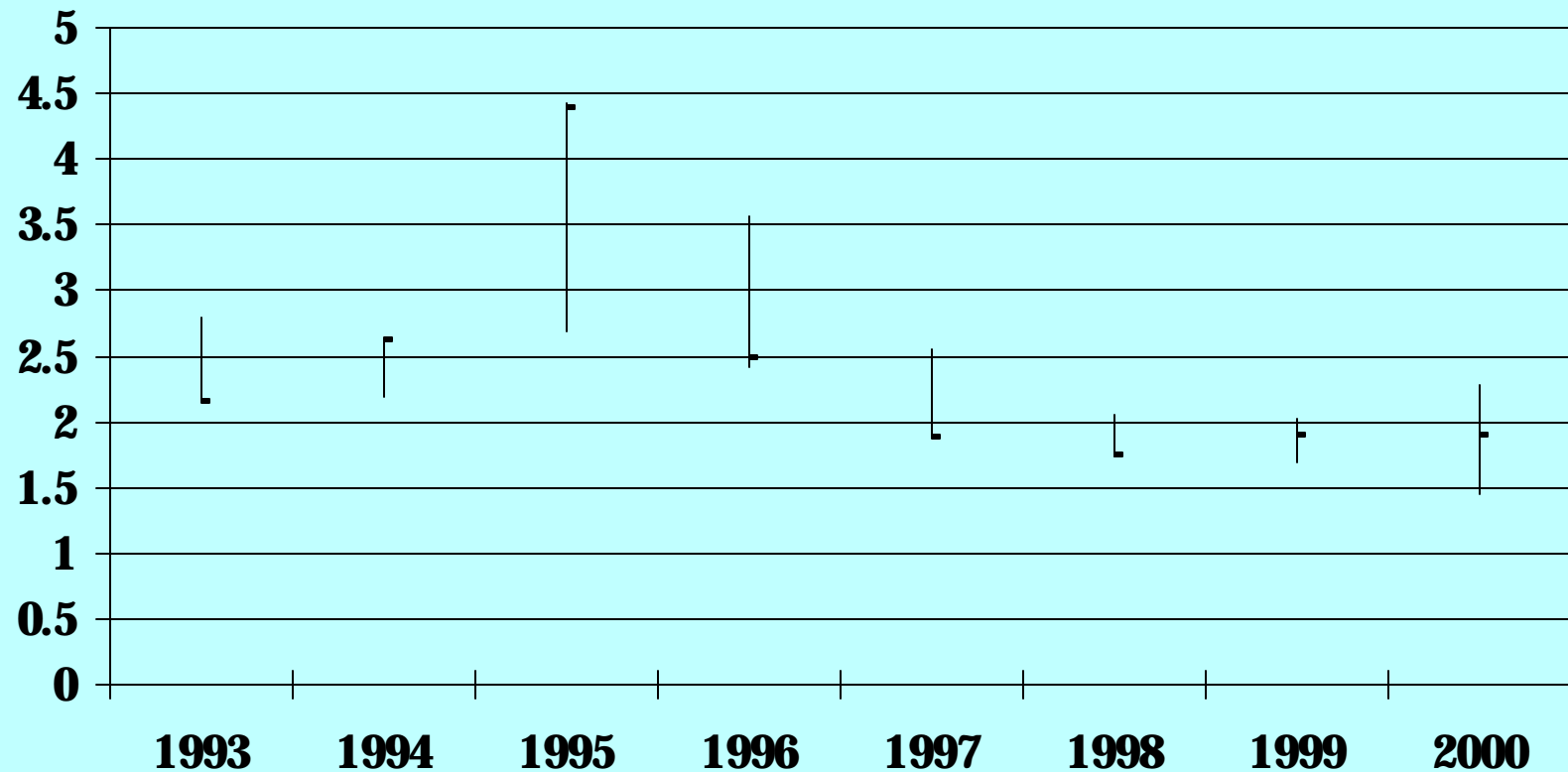
*USDA Agricultural Outlook Forum
Presented February 22, 2001*

Recent History 1: Production loss

- 1988: Drought of the century
- 1989: Drought of the century II
- 1992: Hurricane Andrew
- 1993: Midwest flood/Southeast drought
- 1995: Cotton insects/California floods/wet spring
- 1996: North Carolina hurricanes/record winter
- 1997: Northern Plains floods
- 1998: El Nino, La Nina, South/Southeast drought
- 1999: Northeast drought, Hurricane Floyd, Hurricane Irene
- 2000: Southeast drought, quality problems
- 2001: ????.

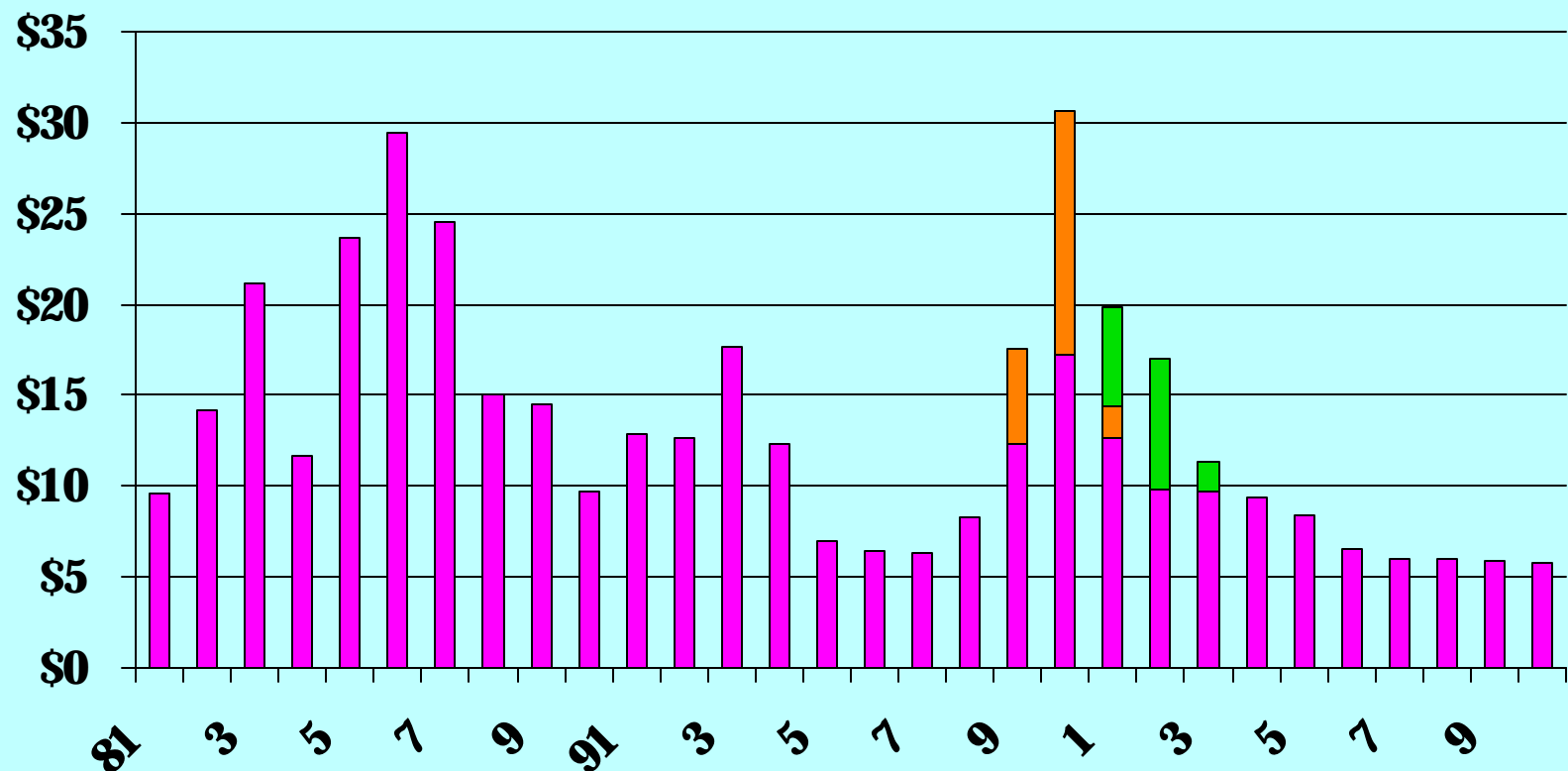
Recent history 2: crop price slump:

Corn price - \$ per bushel



Recent History 3: Federal policy

(Federal farm program spending and projections: \$ billions)



Risk Management tools--

- Address limits of knowledge and control;
 - *Don't know the future;*
 - *Don't know the present either.*
- *“The information you have is not the information you want;*
- *“The information you want is not the information you need;*
- *“The information you need is not the information you can obtain;*
- *“The information you can obtain costs more than you want to pay.”*

Against the Gods: The Remarkable Story of Risk

Peter L. Bernstein

For agriculture:

- Don't know:
 - The price;
 - The markets (mechanisms and dynamics);
 - Yields, weather, agronomy;
 - Changing government programs;
 - People - whom to trust;
 - Too often, own finances, costs, exposures.
- Can know:
 - Contracts (insurance, marketing, futures, forwards, credit);
 - Laws, regulations;
 - Neighbors - who you do trust;
 - Self, and own business facts.

Risk management vs. “safety net”:

- Safety net:

Systems to protect society's most vulnerable members or against most dramatic widespread disasters;

- Risk management:

Tools for all farmers, including successful and profitable ones, as ongoing business practices to maintain success over time.

In agriculture, with high systemic risk and social policy content, the line is often blurred.

Risk management tools: *Create knowledge and certainty-*

- *Public*

- *Crop insurance*
- *LDPs, NAP*
- *AMTA, farm programs*
- *FSA loans*
- *Disaster aid*
- *Research & development*
- *Outreach, education*

- *Private*

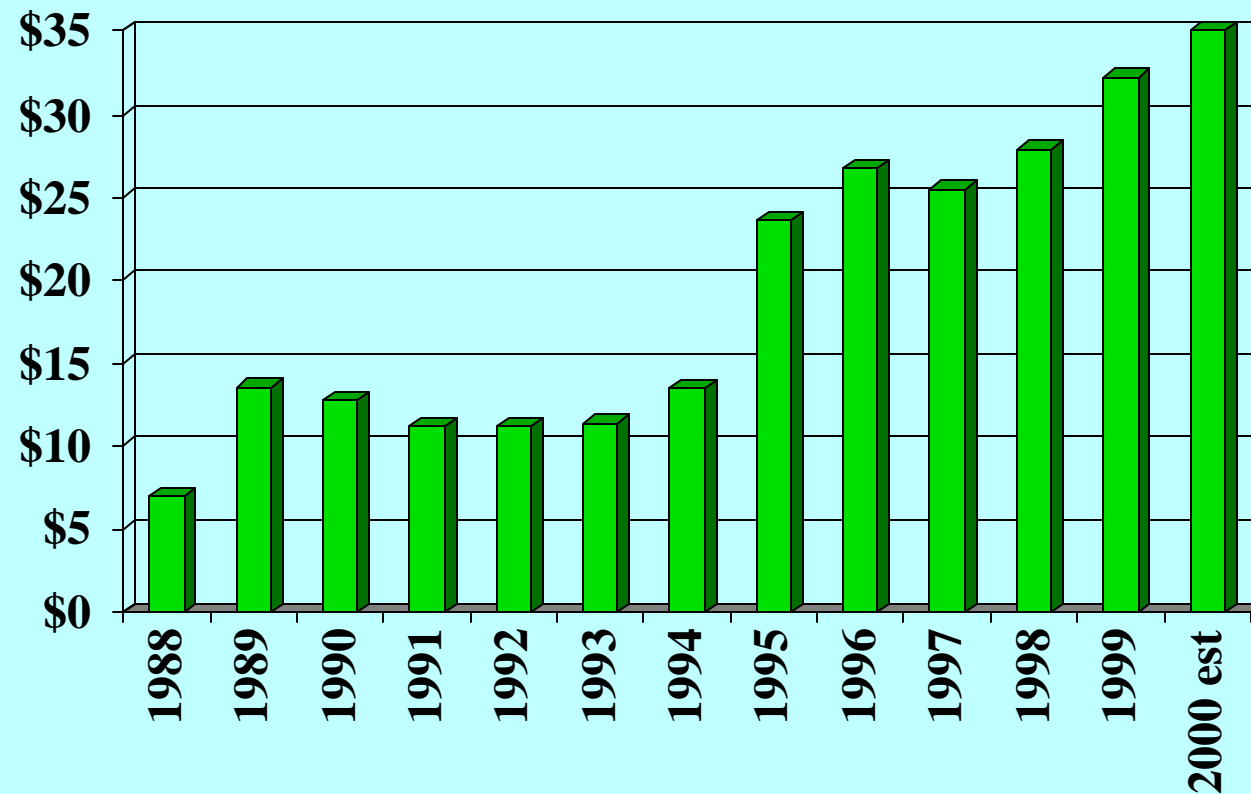
- *Crop insurance*
- *Forward contracting*
- *Futures, options*
- *Agronomic services*
- *Farm credit system*
- *Grower cooperatives*
- *Newsletters, media*
- *Grower organizations*
- *Research and outreach*

Seven Major Reforms Since 1993

- **1993 OBRA**: loss ratio target, “actuarial soundness.”
- **1994 Reform Act**: replaced ad hoc disaster aid with expanded crop insurance, created CAT coverage.
- **1996 Farm Bill**: AMTA payments replaced price supports; crop insurance retained and expanded.
- **1996-8**: revenue insurance spread nationwide.
- **1998 Research Act**: “permanent funding” fix.
- **1998/1999 Emergency Bills**: premium discounts for buy-up coverage, income and crop loss assistance.
- **2000**: New Agricultural Risk Protection Act.

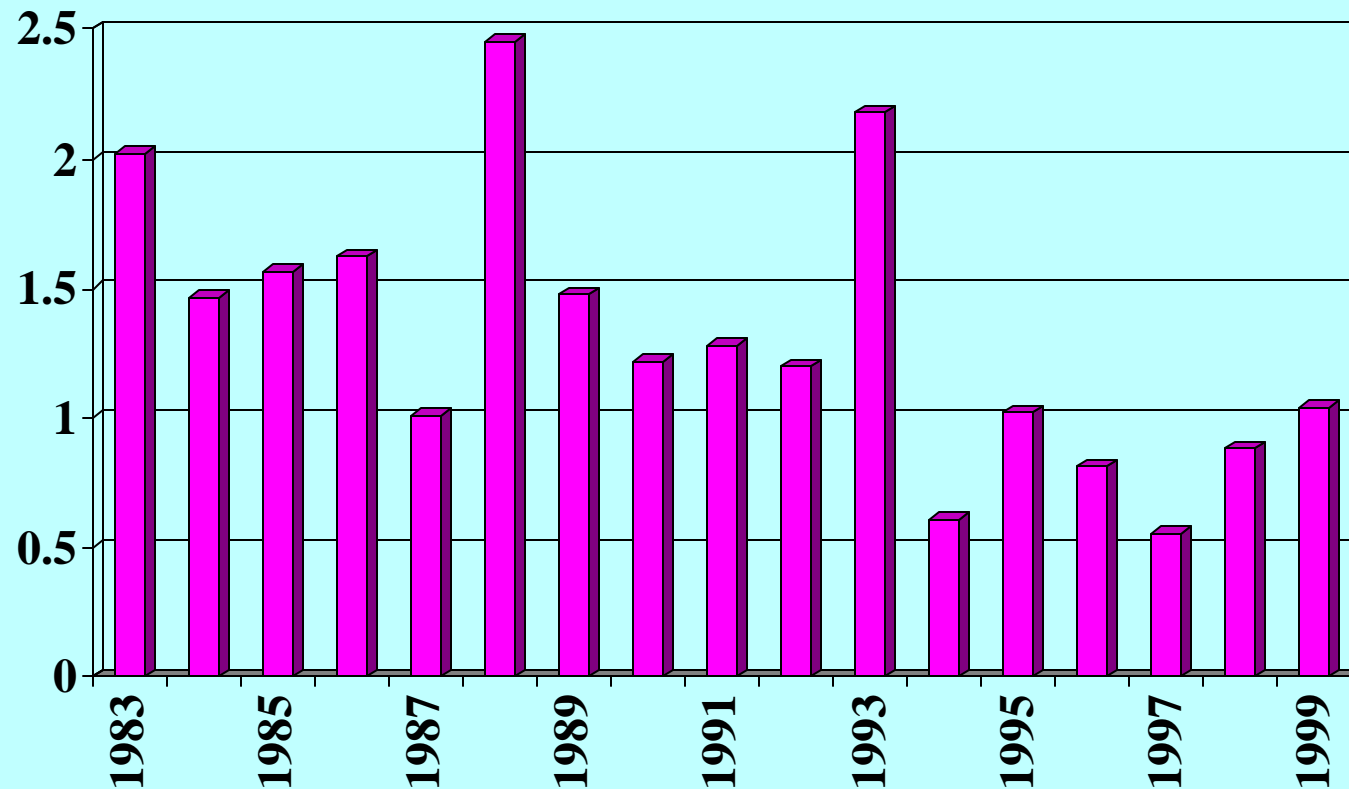
Impacts 1: Rising Program Participation

Crop Insurance Guarantees: US Total 1988-2000 (\$ billions)



Impacts 2: Actuarial Soundness

Crop Insurance Loss Ratios: 1983-1999



Impacts 3: More Products & Choices...

1993: One Choice MPCl

TODAY:

- **Catastrophic coverage**
- **Buy-up coverage**
- **Limited buy-up**
- **Revenue insurance plans**
 - Crop Revenue Coverage
 - Revenue Assurance
 - Group Risk Income Plan
 - Income Protection
 - AGR (Whole Farm) pilot
 - Specialty crop revenue
- **Group Risk Plan**
- **Dairy Options Pilot Program**
- **85% yield coverage**
- **Coverage Enhancement Option (CEO)**
- **New covered crops**
 - Over 138 crops, representing large majority of American production
- **Expansion of existing crops into new areas**
- **New nursery program**
- **so on, so on, so on...**

Goal of 2000 ARPA-

Address widely-perceived crop insurance flaws:

- Not enough farmers using it;
 - Highest levels not affordable;
 - Too many crops not covered;
 - Parts of country considered under-served;
 - Problems with multiple-year losses;
 - Concerns about program integrity;
 - NAP not working well;
 - Many farmers not using RM tools generally.
- *The Process:* Highly bipartisan, highly interactive, wide consensus.

2000 ARPA:

- Invests \$8.2 billion over 5 years to make Federal crop insurance better;
- Makes buy-up coverage more affordable;
- Addresses the problem of multi-year losses;
- Expands research and development for new products and under-served areas through private incentives;
- Tightens program compliance;
- Improves NAP.

1. Improves the Basic Product:

- Higher premium subsidies for buy-ups
 - At all levels, at least as good as 30% discount;
- Authorizes AHP 60/60 adjustment;
- Makes NAP more like insurance
 - Eliminates the NAP area trigger;
 - Creates a \$100 fee per crop per county (same as CAT);

New crop insurance subsidy levels:

Percent of total premium paid by FCIC

	<u>Current APH</u>	<u>Current CRC</u>	<u>New law</u>
<u>50/100</u>	55%	42%	67%
<u>55/100</u>	46%	35%	64%
<u>65/100</u>	42%	32%	59%
<u>70/100</u>	32%	25%	59%
<u>75/100</u>	24%	18%	55%
<u>85/100</u>	13%	10%	38%

2. Encourages Expansion:

- Investment in private sector R&D:
 - \$65 mil.: reimbursements for new products:
 - \$10 mil. in 2001-2, \$15 mil. in 2003-5;
 - \$110 mil.: contracts for partnerships:
 - R&D for under-served areas and crops;
 - Studies of multi-year coverage, revenue insurance and cost of production;
 - Partnerships for new tools, weather data, so on;
 - \$20 mil. in 2001-3, \$25 mil. in 2004-5;
 - \$5 mil. ann. (\$25 mil. total) for under-served states;
- \$175 million in new seed money altogether.
 - Open to all comers, not just crop insurance companies;
- Bars direct research and development by RMA.

More on Expansion:

- Mandates new pilot approaches
 - Expands general pilot program authority;
 - Livestock pilot program;
 - Limited to \$75 mil. over 5 years;
 - (\$10 mil. in 2001-2, \$15 mil. in 2003, \$20 mil. in 2004-5);
 - Premium rate-reduction pilot program;
 - Cost-share pilot program in 10-15 states.
- Expands dairy options pilot program;
- Expands Risk Management education
 - \$5 mil. ann. regional through RMA;
 - \$5 mil. ann. national through CSREES;
- Expanded role for grower cooperatives;
- Expedites FCIC board review of new products
 - 120-day time limit; expanded Board membership.

3. Tightens Oversight:

- Limits double insurance and prevented planting;
- Mandates coordinated plan with Farm Service Agency-
 - Annual data reconciliation;
 - FSA monitoring assistance;
 - Consultation with FSA state committees;
- Funds data-mining effort-
 - Agents or loss adjusters representing losses 150% (or an appropriate percentage) above area average;
- Strengthens “good farming practices” requirement;
- Requires expert review of policies;
- Authorizes re-negotiation of SRA with participating companies: once during the 2001-2005 period.



What this means:

- For crop insurance program
 - Permanent heightened role;
- For producers
 - More choices, better service, more affordable prices;
- For RMA -- lots of work
 - New rules, new roles, new internal structures;
- For RMA and delivery partners
 - High expectations:
 - Integrity, professionalism, service.

*For ag. businesses and groups -
Lots of opportunity:*

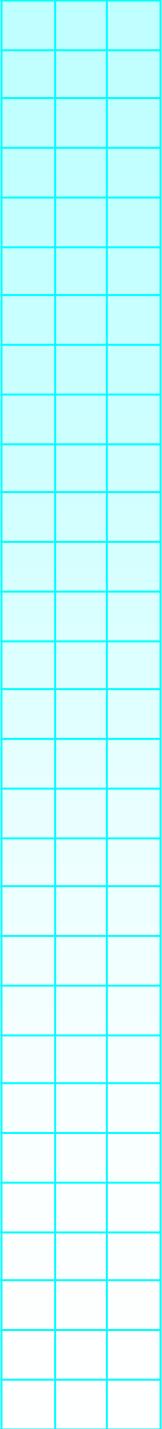
- Larger overall market:
 - \$2.5 billion premium, \$35 billion in guarantees;
 - \$175 million in R&D “seed money”;
- High demand for new products;
 - General rule: whoever develops a new approach first usually dominates the new market;
- Roles for new players;
 - Cooperatives, product developers, RM combinations;
- Growing need for outreach;
- Impact of new technologies:
 - E-commerce, GPS, new trading systems.

Roll-out so far:

- New subsidies: in place for 2001 crop year;
- New regulations being developed:
 - Product submissions, reimbursements;
 - Double insurance, prevented planting, general provisions;
- New contracts:
 - RFPs issued for general contractors,
 - Subcontracts and work-orders to follow;
 - Requests for public input:
 - Priorities for research and development;
 - Outreach efforts in under-served States;

How will it work out? Three factors:

- *Response of ag. community:*
 - Will farmers continue to use new tools and products?
 - Will the private sector step up and provide the innovation?
- *Response from Congress:*
 - Will it provide a stable environment for the new system to work?
 - Program rules, competing farm programs, political support;
- *Views of the new Administration:*
 - Internal management, funding, new roles and structures;
 - Research and development priorities;
 - Wide or narrow view of new authorities?
 - Future shape of risk management; role in Farm Bill debate.



*Reasons to be optimistic:
Strengths to build on-*

- Strong customer base;
- Growing expertise throughout farm community;
- Sound product fundamentals proven by time - flexible framework for innovation.
- Strong acceptance from the farm community in times of change.



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